

Message Text

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ACTION EUR-08

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S E C R E T SECTION 1 OF 2 OTTAWA 3417

LIMDIS

NOFORN

E.O. 11652: GDS

TAGS: PFOR MARR, NATO, CA

SUBJECT: CANADIAN DEFENSE EFFORT TO BE REDUCED

1. SUMMARY. ON THE EVE OF PRIME MINISTER TRUDEAU'S FIRST VISIT TO WESTERN EUROPE AND NATO, THE CANADIAN GOVERNMENT HAS DISCLOSED THAT BECAUSE OF FISCAL CONSTRAINTS THE PRESENT MINIMAL CANADIAN DEFENSE EFFORT IS TO BE FURTHER REDUCED. CANADIAN ARMED FORCES STRENGTH WILL BE REDUCED THROUGH ATTRITION BELOW ITS PRESENT 79,000. ALTHOUGH IT IS UNLIKELY THAT ANY ONE OF ITS FOUR MAJOR DEFENSE TASKS-- PROTECTION OF SOVEREIGNTY; NORTH AMERICAN DEFENSE; NATO MILITARY PARTICIPATION; UN PEACEKEEPING - WILL BE ELIMINATED, EFFORTS IN "MOST" OF THE TASKS WILL BE REDUCED WITH PEACEKEEPING AT THIS TIME THE MOST VULNERABLE. NO CUTBACK WILL BE MADE IN CANADIAN MILITARY PRESENCE IN NATO FOR "SHORT TERM". OPERATIONS AND MAINTENANCE PROGRAMS ARE BEING CUT BACK. EXECUTION OF MAJOR CAPITAL PROGRAMS, I.E., PURCHASE OF LONG RANGE PATROL AIRCRAFT WILL DEPEND ON PERFORMANCE OF CANADIAN ECONOMY DURING NEXT 12 MONTHS. CABINET DECISION ON EXTENT AND LOCATION

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OF CUTS IS SCHEDULED FOR OCTOBER 31 AFTER PRIME MINISTER'S

RETURN FROM EUROPE. END SUMMARY

2. WITHIN PAST FEW WEEKS, EMBASSY HAD LEARNED OF SERIOUS CONSIDERATION WITHIN GOC OF THE NEGATIVE EFFECT OF DOUBLE-DIGIT INFLATION AND DROP IN ANTICIPATED GOVERNMENT REVENUES ON CANADIAN DEFENSE EFFORT FOR CURRENT FISCAL YEAR, AS WELL AS FOR FISCAL YEAR BEGINNING APRIL 1, 1975. REPORTS OF LIKELY CUTBACKS IN DEFENSE ESTABLISHMENT SURFACED THIS PAST WEEK IN THE PRESS AND IN THE PARLIAMENT. BASED ON RECENT CONVERSATIONS BY POL COUNSELOR WITH SENIOR DEFENSE AND EXTERNAL AFFAIRS OFFICIALS, GOVERNMENT DEFENSE LEADERS IN PARLIAMENT AND PUBLIC ADDRESSES AND STATEMENTS BY THE MINISTER OF DEFENCE, OPPOSITION MEMBERS OF PARLIAMENT, CHIEF OF THE DEFENCE STAFF AND COMMANDER OF THE MARITIME COMMAND, THE FOLLOWING EMERGES AS THE PRINCIPAL FACTS AND CONSIDERATIONS OF THE PRESENT DEBATE AND DECISION-MAKING PROCESS:

3. BACKGROUND: LAST OCTOBER 10, 1973, DEFENCE MINISTER RICHARDSON ANNOUNCED A NEW CANADIAN 5-YEAR DEFENSE PROGRAM-- BASED ON A FORMULA FINANCE SYSTEM-- IN WHICH THE DEFENSE BUDGET WOULD BE INCREASED ANNUALLY, USING 73/74 AS THE BASE FISCAL YEAR AT RATE OF 7 PERCENT, COMMENCING WITH THE CURRENT 74/75 FISCAL YEAR AND A \$2.43 BILLION APPROPRIATION. AN ESSENTIAL FACTOR IN THE SYSTEM WAS A 1 1/2 PERCENT ANNUAL INCREMENTAL INCREASE FOR PURCHASE OF NEW CAPITAL EQUIPMENT, RESULTING BY THE END OF THE FIFTH YEAR IN AN ALLOCATION OF 20 PERCENT OF THE DEFENSE BUDGET FOR SUCH PURCHASES. (INCREASE WOULD BE FROM \$242 MILLION TO \$600 MILLION). DEPARTMENT OF NATIONAL DEFENCE (NDN) PRESSED FOR A 9 1/2 PERCENT RATE OF INCREASE AS MORE REALISTIC BUT WAS FORCED BY FINANCE MINISTRY AND TREASURY BOARD TO ACCEPT 7 PERCENT. (CANADIAN CYNICS OF PROGRAM THEN CHARGED PURPOSE WAS TO PROVIDE CEILING RATHER THAN NET INCREASE IN DEFENSE BUDGET). BY EARLY SPRING OF THIS YEAR, IT WAS ALREADY APPARENT TO DND THAT A 7 PERCENT INCREASE WAS INSUFFICIENT AND THAT RISING COSTS WOULD FORCE THEM INTO DEFICIT UNLESS SUPPLEMENTAL FUNDS WERE MADE AVAILABLE. DISSOLUTION OF PARLIAMENT, ELECTIONS IN JULY AND DELAYED FORMATION OF NEW GOVERNMENT

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POSTPONED CONSIDERATION OF DEFENCE DILEMMA AT DECISION-MAKING LEVEL OF GOVERNMENT. IN EARLY SEPTEMBER THE FINANCE DEPARTMENT PRESENTED TO THE CABINET THE "FISCAL FRAMEWORK" WITHIN WHICH GOC WOULD HAVE TO OPERATE DURING THE 74/75 FISCAL YEAR. DOUBLE-DIGIT INFLATION COUPLED WITH A DECREASE IN ANTICIPATED GROWTH OF GNP (IT WAS AERO IN SECOND QUARTER WITH ITS NEGATIVE IMPACT ON FEDERAL REVENUES) CAUSED GOC TO ADOPT A POLICY OF SELF-RESTRAINT IN

GOVERNMENT SPENDING, MAKING IT
UNLIKELY THAT DND COULD GET SUBSTANTIALLY MORE THAN
THE 7 PERCENT PROJECTED INCREASE.

4. CURRENT SITUATION: DEFICIT FOR CURRENT YEAR IS
ABOUT \$100 MILLION. THIS HAS BEEN MET BY LETTING OVERALL
MANPOWER DROP FROM AUTHORIZED STRENGTH OF 83,970
PERSONS TO JUST UNDER 80,000 AT PRESENT, WITH A FURTHER
REDUCTION TO 78,500 EXPECTED; SUPPLEMENTAL FUNDING;
CUTBACK IN OPERATIONS, POSTPONEMENT OF MAINTENANCE; AND
"ROLL-OVER" OF OBLIGATIONS TO NEXT FISCAL YEAR BEGINNING
APRIL 1, 1975. IN UNUSUAL PRESS STATEMENTS DISCUSSING
THE PLIGHT OF THE ARMED FORCES, GENERAL J. DEXTRAZE,
CHIEF OF STAFF (CANADA'S RANKING MILITARY OFFICER) AND
REAR ADMIRAL D.S. BOYLE STATED THE FORCES ARE OVERWORKED
AND CANNOT DO THEIR ASSIGNED TASKS AND MISSIONS WITH LESS
THAN AUTHORIZED STRENGTH. DEXTRAZE SAID THERE WAS NO
"FAT" LEFT-- "INDEED WE MAY HAVE CUT TOO NEAR THE BONE
IN SOME AREAS-- UNLESS WE ELIMINATE A MAJOR COMMITMENT,
WE CANNOT POSSIBLY DO OUR JOB WITH FEWER PEOPLE." BOYLE
SAID ANY TALK OF FURTHER CUTBACKS WAS "ALARMING," WHILE
CONCEDING THAT THE ARMED FORCES CAN BE REDUCED ONLY BY
REDUCING THEIR TASKS, DEFENCE MINISTER RICHARDSON SAID
IN COMMONS OCTOBER 15 (SEPT 15) THAT CANADA MUST HAVE AN
ELITE ARMED FORCE, SMALLER IN NUMBERS THAN AT PRESENT
BUT BETTER EQUIPPED. HIS AIM, HE SAID, WAS TO CREATE
"AN ELITE FORCE, PROUD OF THE JOB THEY ARE DOING FOR
CANADA".

5. OPTIONS; THE DEPARTMENTS OF NATIONAL DEFENCE AND
EXTERNAL AFFAIRS WERE TO PRESENT TO THE CABINET THIS
WEEK SEVERAL SCENARIOS OF DEFENSE OPERATIONS AT DIFFERENT
LEVELS OF SPENDING. THE TWO "EXTREMES- ARE: (1) MAINTAINING
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THE STATUS QUO (I.E. FORCE OF 79,000) PERFORMING
PRINCIPAL TASKS (PROTECTION OF SOVEREIGNTY; NORTH AMERICAN
DEFENSE; NATO; PEACEKEEPING) AT PRESENT LEVEL OF EXISTING
PARTICIPATION; AND OR (2) ALLOWING STRENGTH OF FORCES TO
DROP TO 75,000. IN CASE OF LATTER, IT WOULD THEN BE NECESSARY TO
(A) REDUCE SOME MORE THAN OTHERS, OR (C) REDUCE ONE
PRINCIPAL TASK SUCH AS PEACEKEEPING OR NATO. GIVEN THE
PRESENT FISCAL FRAMEWORK AND LOW PRIORITY WHICH TRUDEAU
HAS ATTACHED TO CANADA'S DEFENSE EFFORT SINCE BECOMING
PRIME MINISTER IN 1968, NO ONE, EITHER PRIVATELY OR
PUBLICLY, BELIEVES THAT THIS GOVERNMENT WOULD ALLOCATE
THE NECESSARY FUNDS TO PERMIT THE CANADIAN ARMED FORCES
TO MAINTAIN THE STATUS QUO IN STRENGTH AND TASKS. UN-
FORTUNATELY, THE OTHER EXTREME-- A CUT TO 75,000-- IS NOT
EXCLUDED WITH THE SAME CERTAINTY, BUT SENIOR OFFICIALS

CONFIDED THAT IF CUTS COULD BE HELD TO A LEVEL OF ABOUT 77,000 THEN WITH AN ALLOCATION OF ABOUT \$2.7 BILLION DND WOULD SQUEEZE THROUGH WITH THE FOLLOWING ACTIONS EFFECTING EACH OF THE PRINCIPAL TASKS.

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S E C R E T SECTION 2 OF 2 OTTAWA 3417

LIMDIS

NOFORN

A. PROTECTION OF SOVEREIGNTY- CLOSE BASES IN CANADA AND CONSOLIDATE CERTAIN COMMANDS. ABSORB MOST OF 2,000 PERSONNEL REDUCTION IN CANADA. POSTPONE OR REDUCE SOME CAPITAL PROGRAMS. THE DIFFICULTY IN EXECUTING SUCH MOVES WOULD BE DOMESTIC POLITICAL OPPOSITION TO LOSING LOCAL ECONOMIC BENEFITS.

B. NORTH AMERICAN DEFENSE - GOC OFFICIALS ARE HOPEFUL THAT REDUCTIONS INTIMATED TO THEM BY US MILITARY WOULD BE SUFFICIENT TO PERMIT CORRESPONDING CANADIAN CUTS TO ACHIEVE SOME SAVINGS HERE.

C. NATO- HOPE IS FOR NO CUTS IN "SHORT TERM" TO CANADIAN FORCES ASSIGNED TO ALLIED COMMAND EUROPE. THEY CONSIST OF 2,900-MAN MECHANIZED BATTLE GROUP AND 2,200-MAN THREE-SQUADRON AIR GROUP. TOTAL COST: APPROXIMATELY \$110 MILLIIN ANNUALLY. HOWEVER, IF SOME TRIMMING OF THIS

COMMITMENT WAS NOT FISCALLY SUFFICIENT, ELIMINATION
OF AIR GROUP WOULD BE TEMPTING TARGET FOR BUDGET CUTTERS--
IF NOT IN FY75/76, THEN IN FY76/77. MINDEF RICHARDSON
SAID THERE WOULD NOT BE A REDUCTION IN NATO CONTINGENT
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IN "SHORT TERM." WITH TRUDEAU TRYING TO STRENGTHEN
CANADIAN POLITICAL AND ECONOMIC TIES WITH WESTERN EUROPE
AND WANTING TO MAINTAIN POLITICAL INFLUENCE IN NATO AND
VARIOUS OTHER EUROPEAN POLITICAL/MILITARY INTERNATIONAL
CONFERENCES-- HE PROBABLY IS PREPARED TO PAY THE MINIMUM
PRICE NECESSARY TO KEEP HIS SEAT AT THE TABLES.

D. UN PEACEKEEPING- WITH EARLIER WITHDRAWALS
FROM ICC LAOS AND VIETNAM AND SUBSEQUENT STATEMENTS AT
UN QUESTIONING PEACEKEEPING ROLE (MOST RECENTLY FOREIGN
MINISTER MACEACHEN AT UNGA), THERE HAS BEEN AMPLE SUG-
GESTION THAT CANADA INTENDS TO REDUCE ITS PEACEKEEPING
EFFORT--PERHAPS SUBSTANTIALLY. PRESENTLY, CANADA HAS
950 SOLDIERS IN CYPRUS, 1100 IN UNEF, AND 25 IN KASHMIR.
MINDEF RICHARDSON MADE POINTED REFERENCE IN COMMONS
STATEMENT, OCTOBER 15, THAT GOC DOUBLED NUMBER OF PER-
SONNEL IN CYPRUS THIS SUMMER ON UNDERSTANDING THIS WAS
A "TEMPORARY COMMITMENT".

6. CAPITAL EQUIPMENT: FATE OF CAPITAL EQUIPMENT PROGRAM
IS UNCERTAIN ALTHOUGH THRUST OF RICHARDSON'S POSITION IS
THAT HE WOULD SACRIFICE PERSONNEL STRENGTH AND CERTAIN
TASKS IN ORDER TO ACHIEVE BETTER-EQUIPPED FORCE. MOST
SIGNIFICANT PROGRAM FOR US IS PURCHASE OF LONG RANGE PATROL
AIRCRAFT TO REPLACE ARGUS AIRCRAFT. SENIOR NATIONAL DEFENCE
OFFICIAL SAID THIS PROGRAM REMAINS ON SCHEDULE WITH
DECISION ON NUMBER AND MODEL NOT TO BE MADE UNTIL NEXT
SPRING. HE THOUGHT TIGHT BUDGET WOULD FAVOR LOCKHEED P3
OVER BOEING 707 AND IN ANY CASE FEWER THAN THE ORIGINALLY
CONTEMPLATED 20-22 AIRCRAFT WOULD BE ULTIMATELY PURCHASED.

7. TIMING: TARGET DATE FOR DECISION IS OCTOBER 31
CABINET MEETING. WHILE TRUDEAU IS IN EUROPE,
DND-EXTAFF OPTIONS PAPER WILL BE CONSIDERED BY CABINET
COMMITTED FOR EXTAFF AND DEFENCE, CHAIRED BY FOREIGN
MINISTER MACEACHEN. THIS COMMITTEE COULD MAKE A RECOM-
MENDATION, ARRIVE AT A SPLIT POSITION, OR REFER PROBLEM
TO CABINET COMMITTEE ON PLANS AND POLICY, CHAIRED BY
TRUDEAU. ONLY KNOWN ADVOCATES OF INCREASING DEFENCE
BUDGET IN ORDER TO MEET RISING COSTS ARE MACEACHEN AND
RICHARDSON; HOWEVER, IN PUBLIC, LATTER HAS BEEN JUSTIFYING
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REDUCTIONS. PRINCIPAL OPPONENTS ARE REPORTED TO BE FINANCE MINISTER TURNER AND TREASURY BOARD PRESIDENT CHRETEIN, AND TO A LESSER EXTENT, ONE CAN PRESUME ALL OTHER MINISTERS BECAUSE ANY INCREASE FOR DEFENSE WILL MEAN A DECERASE FOR SOME OTHER MINISTRY OR MINISTRIES.

8. OBSERVATIONS:

A. WHILE THERE WAS NO PARTICULAR PUBLIC PRESSURE FOR DEFENSE CUTS WHICH TRUDEAU IMPOSED AFTER TAKING OFFICE IN 1968, FISCAL CONSTRAINTS WOULD NOW MAKE IT POLITICALLY DIFFICULT TO INCREASE DEFENSE EXPENDITURES AT EXPENSE OF DOMESTIC PROGRAMS.

B. FISCAL PROBLEM IS MORE DIFFICULT BECAUSE, AS A RESULT OF EARLIER CUTS WHICH WERE POLITICALLY BASED, THERE IS NO CUSHION LEFT IN DEFENSE BUDGET-- CANADIAN ARMED FORCES ARE SUFFERING FROM MALNUTRITION WHICH THE FIVE- YEAR DEFENCE PROGRAM WAS PRESCRIBED TO CORRECT PARTIALLY.

C. DIFFICULTY IN PROVIDING FOR ADEQUATE DEFENSE ESTABLISHMENT IN CANADA IS THAT THERE ARE NO EFFECTIVE, INFLUENTIAL OR ARTICULATE SPOKESMEN IN CANADA TO EXPLAIN TO THE PUBLIC WHY CANADA SHOULD SPEND MONEY ON DEFENSE.

D. BECAUSE CANADIANS (PUBLIC AND MOST OF PARLIAMENT) DO NOT PERCEIVE ANY DIRECT MILITARY THREAT TO THEIR NATIONAL EXISTENCE, DEFENSE EXPENDITURES ARE NOT JUSTIFIED PRIMARILY ON MILITARY GROUNDS BUT IN ORDER TO PERFORM CERTAIN DOMESTIC FUNCTIONS (PROTECT COAST AGAINST FOREIGN FISHERMEN, PERFORM DISASTER RELEIF); FULFILL COLLECTIVE SECURITY OBLIGATIONS(NOT POPULAR); PARTICIPATE IN UN PEACEKEEPING ACTIVITIES (GOOD FOR NATIONAL EGO IF COST IS NOT TOO HIGH). HOWEVER, GIVEN TRUDEAU POLICY FOR SIX YEARS TO DOWNGRADE DEFENSE REQUIREMNTS, IT IS NOT SURPRISING THAT THERE IS GENRAL INDIFFERENCE TO PLIGHT OF THE CANADIAN ARMED FORCES.

3. NOTICEABLE SENTIMENT BOTH IN PARLIAMENT AND IN PUBLIC THAT IN ANY EVENT AND IN THE FINAL ANALYSIS, US CANNOT DEFEND ITSELF AGAINST SOVIETS WITHOUT DEFENDING
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CANADA; THEREFORE, CANADA CAN GET A "FREE RIDE."

9. RECOMMENDATIONS: DECISON-MAKERS HERE KNOW THE PROS AND CONS FOR CUTTING DEFENSE EFFORT. AS NORAD AND NATO

PARTICIPATION DO NOT APPEAR SERIOUSLY THREATENED IN
THIS PRESENT ROUND, USG NEED NOT DIRECTLY INTERVENE--
INDEED SUCH INTERVENTION COULD BE COUNTER-
PRODUCTIVE.

IN THE FINAL ANALYSIS, HOWEVER, IT WILL BE THE PERFORMANCE
OF THE CANADIAN ECONOMY WHICH WILL DETERMINE IN LARGE MEASURE
HOW MUCH MONEY THE GOC WILL SPEND ON DEFENSE. IF THE CURRENT
10 PERCENT-PLUS INFLATION RATE CAN BE STABILIZED AND
HOPEFULLY LOWERED, AND IF THE ECONOMY COULD SUSTAIN A
REAL GROWTH RATE OF ABOUT 5 TO 6 PERCENT, THEN THE GOC
WOULD BE MORE DISPOSED TO FUND ITS DEFENSE ESTABLISHMENT
WHILE CONTINUING TO FINANCE DOMESTIC PROGRAMS TO WHICH
IT CLEARLY ACCORDS HIGHER PRIORITY.
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